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SUBJECT: A CLEANER GUANGDONG FACES MORE SEVERE POWER SHORTAGES THIS SUMMER

(U) This document is sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: Guangdong continues to be confronted by severe power shortages this summer. The provincial government's plan to lower local air pollution discharges and shut down small power stations has been affected by the shortages; rolling blackouts have been applied in different areas, many American firms in Shenzhen and elsewhere are affected. End summary.

#### Guangdong's Power Shortages Intensify

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¶2. (U) This is the fourth consecutive summer that Guangdong is short of power generating capacity - this summer, the shortage is more than 4,000 megawatts (MW) hours. According to a report from China Business News citing the Director of Electricity Energy Division of Guangdong Provincial Economic and Trade Commission, Guangdong's generating gap was 4,000 MW in April, which is higher than the predicted figure of 2,550 to 3,690 MW. Major industrial cities in Guangdong's Pearl River Delta (PRD) are suffering from shortages this quarter: Guangzhou is short 400 to 600 MW hours of capacity Foshan, 800 MW hours, and Shenzhen, 1,000 MW.

¶3. (SBU) Guangdong officials have pointed out that many of Guangdong's new power generation plants are still under construction, rainfall for generating hydroelectricity has been low, the supply of oil and gas for power stations is insufficient. At the same time, the government is attempting to make good on a much earlier commitment to shut down small and inefficient power plants to reduce air pollution. The Government expects the averaged generating gap for 2007 will be 2,000 MW hours, with the summer peak gap of 4,000 MW.

¶4. (SBU) The Guangdong Government plans to lower the energy consumption and sulphur dioxide for each unit of GDP output by 16 percent and 15 percent respectively as part of the new environmental emphasis under the 11th Five-Year Program (2006-2010). Shutting down inefficient and heavily polluting small oil and coal generators, which account for 28.4 percent and 16 percent of the province's total capacity, is the key part of the Government's environment protection effort. Though the Government plans to reduce 2,200 MW of small generating capacity in 2007, it has only managed to shut down generators with 227 MW hours of capacity in one power plant in Shantou so far. Elsewhere, including Guangzhou, many other inefficient and polluting generators are still operating full scale due to the shortages.

IBM Hit by Blackouts for the First Time in Shenzhen

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14. (SBU) IBM was notified late on Monday, May 28, that due to power shortages in Shenzhen, the local government would impose rolling blackouts throughout Shenzhen, starting immediately. Apparently there will be no exceptions, and no exemptions for favored industries, including hi-tech and renowned foreign companies such as IBM. This will be an across-the-board blackout. Shenzhen has been divided up into a number of sectors and each day all the businesses in that day's sector will have their power cut from 0800 to 2300 each day. IBM will lose power on Fridays. IBM's Shenzhen and Beijing offices are contacting Shenzhen Mayor to seek relief. IBM will be one of many companies standing in a long line outside the Mayor's office.

15. (SBU) IBM's biggest concern is that it has a worldwide call center in Shenzhen that operates 24 hours a day, seven days a week. Closing the center for one day each week will cause huge problems for IBM. This call center is part of a showcase operation for IBM; the company was able to negotiate certain exemptions from the labor department on overtime and benefits that have never been granted to any other enterprise. IBM is anxious to keep the call center from a potential public relations disaster. IBM was surprised by the local government's tough move to deal with the crisis with no special treatment for the "favored" industries and enterprises.

Comment: No End but a Silver Lining for U.S. Energy Firms?

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17. (SBU) Guangdong's power shortage is expected to continue into the near future, especially with the Provincial Government's determination to lower local air pollution discharges; this has become an important criterion of local officials' performance evaluations. Previous attempts to shut down inefficient plants have

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failed because of the power shortages. An American in the power generation business predicted on-going shortages for the foreseeable future due to a combination of Guangdong officials' hesitancy to approve what they view as excess capacity and Guangdong's rapid economic growth. With the conversion of the PRD economy from labor intensive to high-tech, capital intensive industries will only make the shortages more intense. The situation may force local governments to pay more attention to power saving campaigns and apply more energy saving technologies as they continue to increase the number of power plants under construction. This could be an excellent business opportunity for American enterprises in this field. END COMMENT.

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